Jennifer M. Granholm, Governor Stanley F. (Skip) Pruss, Director Department of Energy, Labor & Economic Growth Melvin Butch Hollowell
Michigan Insurance
Consumer Advocate

June 17, 2009

Hon. Mark Meadows Chair Committee on the Judiciary House of Representatives State of Michigan S 1088 House Office Building P.O. Box 30014 Lansing, Michigan 48909-7514

Re: Un-insured Drivers in the State of Michigan

Dear Mr. Chair:

I am writing this letter at the request of State Representative Shanelle Jackson, and State Representative Bettie Cook-Scott, to address the issue of un-insured drivers in the State of Michigan. My understanding is that this information may be relevant to the Judiciary Committee's hearing being conducting in Detroit, on Friday, June 19, 2009. I hope that the following information and analysis is helpful to the Committee's deliberations, and I have no objection to this correspondence being entered into the hearing record, if you believe it is appropriate to do so.

At a time when our economy has stretched consumers' pocketbooks to the limit, the people of Michigan are paying among the highest auto insurance rates in America; rates for coverage that they are compelled, by law, to buy under our No Fault system. Michigan's statewide average annual premium of approximately \$1,076 is just behind New Jersey's \$1,100 rate: the nation's most expensive. Our \$436 average annual premium for collision insurance is America's priciest. And Michigan's \$5,072 average annual urban premium is, by far, the highest in the nation, and almost \$1,200 higher than second place Philadelphia.

Since 1989, Michigan auto insurance premiums have increased at a staggering rate of 69%: the fastest rate of increase in the United States.

The State's expert witness at the Auto Insurance Affordability Hearings conducted in November, 2008, testified that auto insurance in Michigan has become <u>unaffordable</u> for "[a] large and growing segment of [Michigan's] population." [Source: Bay City Auto Insurance Affordability Hearing. Testimony of Birney Birnbaum. Transcript, p. 30]. After the Affordability Hearing conducted in Grand Rapids, even the Insurance Institute of Michigan's Executive Director stated that auto insurance rates across Michigan are "[i]ncreasingly becoming <u>unaffordable</u>." [Source: *Grand Rapids Press*, November 11, 2008].

The rates being paid by Michiganians are both unsustainable, and at odds with the facts. Consider the following:

- Auto accidents in Michigan are down 54% since 1996 (9,000 fewer accidents)
- Michigan drivers have the highest rate of seat belt use in the nation (97.2%)
- The average number of miles driven by Michigan motorists is the lowest it has been in 17 years
- In 2008, annual traffic deaths per million miles traveled (1.37), were the lowest ever recorded
- Accidents by Michigan seniors are at their lowest levels since the 1960's

Yet, rates continue to climb and profits are at record levels. The industry's 19.8% profit margin in Michigan was second only to Hawaii. And the "old saw" that Michigan's rates are this high because the No Fault statute covers all "reasonable and necessary" health care costs, is simply untrue. No Fault's health care coverage is approximately 20% of the overall premium. And *that* portion ranks 22<sup>nd</sup> in the nation, not first. The lions share (65%) of premium cost is for comprehensive and collision coverage. While the No Fault statute does not require comprehensive and collision, lenders do. Therefore, the approximately 87% of Michiganians who finance their cars, have comprehensive and collision coverage.

The result of these unaffordably high rates is that nearly 20% of Michiganians drive without insurance, even though there is a criminal penalty of up to one year in jail for doing so. That figure is closer to 60% in our State's urban areas. The *Wall Street Journal* recently examined this issue ["Road Risks Rise as More Drivers Drop Insurance," December 17, 2008], concluding that the percentage of uninsured drivers, nationally, is on the rise, and that Michigan's uninsured rate is 9<sup>th</sup> highest in the U.S. This is remarkable since none of the 8 states with a higher ranking have a mandatory No Fault insurance requirement, with criminal penalties attached. A June 9, 2009 report by National Public Radio found that the rate of uninsured drivers is directly tied to the unemployment rate, and that according to the Insurance Research Council, "If the unemployment rate goes up by 1 percent, we would anticipate that the percentage of people who are uninsured would go up by three-fourths of 1 percent."

As Governor Jennifer M. Granholm indicated in her February 3, 2009 State of the State Address, comprehensive auto insurance reform needs to be adopted in the State Legislature this year, along the lines of the 10 Recommendations set forth in the Insurance Consumer Advocate's 2008 Annual Report ("Affordable Insurance for All: A Plan to Protect Michigan Consumers") to ensure affordable, reliable and fair rates for all Michiganians.

Thank you, Mr. Chairman, for your consideration of this correspondence.

Sincerely,

Automobile and Home Insurance Consumer Advocate State of Michigan

Melvin Butch Hollowell

Cc: Hon. Shanelle Jackson

Hon. Bettie Cook-Scott